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From entrepreneur to owner-manager

The demands of not only starting but building a business commonly invoke the independence, risk-taking and dynamism associated with entrepreneurs. However it can be argued that, as enterprises grow, mature and become more established, the role of everyday business management requires a different set of skills, or areas of emphasis, from those associated with a start-up. This Chapter focuses on the challenging transformation from the start-up phase to the everyday management of a business with employees. Importantly, this involves adapting to the demands placed upon an owner-manager, the need for demonstrating leadership and for engaging with employment relationships.

Entrepreneur to employer

Of the five million enterprises classified as SMEs within the UK economy, approximately four million are individuals trading on their own, without employees. As we will discuss, there is a range of reasons why these businesses, and other small enterprises with employees already, may not want to hire new staff. However, in purely economic terms, research such as that by the Centre for Business Research (CEBR, 2014) suggests that rates of financial turnover per employee increase with employee numbers. In terms of employment rates and economic prosperity, it is therefore, understandable that governments might want to target the self-employed, one person enterprises and encourage them to take on employees. Mathematically at least, if every one-person enterprise in the UK took on one employee this would create four million jobs!

For example, the Federation of Small Businesses, ‘the UK’s **largest campaigning pressure group** promoting and protecting the interests of the self-employed and owners of small firms’ (FSB, 2015; emphasis in original), argued in a report on the role of small businesses in employment and enterprise (Urwin and Buscha, 2012: 9) that:

Our analysis suggests that 74 per cent of those we observe becoming self-employed

with employees come from the self-employed who previously had no employees, while a further 13 per cent come from the ranks of employees in micro-businesses. Individuals making this transition are therefore a particularly important part of the entrepreneurial pipeline and generator of jobs. In light of the evidence [...] we would argue that supporting self-employed individuals to take on an employee is a highly important – and arguably overlooked – means of helping the unemployed and non-participants get back into work. This may also widen access to entrepreneurship.

However, none of this is straight-forward. While many governments work hard at limiting the obstacles to employing new staff and to encourage a growth mindset among business owners, small businesses tend not to grow beyond their initial size and very few could be considered ‘high growth’ (see Storey, 2011). While there is a broad range of reasons why small businesses do not grow into medium or large businesses, Sloan and Chittenden (2006), among others like Scase and Goffee (1987), offer evidence suggesting that the appetite for growth may be limited. We return to this discussion later in this Chapter in the section ‘Assumptions of growth’.

For those who do want to grow their employee numbers, for example a start-up enterprise or growth-oriented entrepreneurs, they must engage with a number of steps. Formally, in taking on a first employee the business owner will have to comply with specific legal requirements. In the UK, for example, new employers are advised to:

1. Decide how much to pay an employee (complying with national minimum wage legislation)
2. Confirm that the proposed recruit has the legal right to work in the UK
3. Conduct background checks on a potential employee’s criminal record and suitability for certain roles, such as those requiring security clearance or caring for vulnerable people
4. Obtain employers’ liability insurance
5. Prepare and send details of the job, including terms and conditions, to the employee
6. Register as an employer with the tax authorities

(Source: <https://www.gov.uk/employing-staff>)

Beyond these immediate legal issues, moving from self-employment or as part of a start-up team can give rise to numerous other considerations and challenges. Whether businesses are able to cope with these challenges, and how they cope with them, may influence the success of the business and how it develops.

Task:

Moving from being a self-employed, one person enterprise to becoming an employer will give rise to numerous fresh considerations for the business owner, especially in respect of the employment relationship. Focus on the context of an economy that interests you and try to map out as many of these challenges as you can think of.

The challenges of moving from entrepreneur to owner-manager

Taking on employees creates fresh challenges for entrepreneurs and in this section we begin to characterise the nature of these different pressures. The transition to becoming an owner-manager and of having to engage with the challenges associated with human resource management have been noted by some commentators as one of the key obstacles to establishing a business and that ‘an inability on the part of some founders of new ventures to successfully manage HRM issues is an important factor in their ultimate failure’ (Baron, 2003: 253). The key challenges can be broadly considered in terms of resources, delegation and skills.

Resources

The first pressure likely to strike the small business owner is the added costs within their business. Growth requires resources and, for employment growth, this creates demands on finances, time and management effort such that appointing a new employee and getting them to a point where they can make a contribution to the business can prove tougher than may be initially thought. The considerations of taking on a new employee extend beyond whether the

business can afford their salary.

As a founder and director at a communications firm, explained to us:

... in taking people on it's always about the balance of risk and reward. You know, you're committed to pay them a certain amount, which puts pressure on the business to earn more money.

And of course, if you're new in business you forget about that. Well we don't now...when you learn, you learn about the actual true cost of employing somebody. And the true commitment of employing someone is very different than just what it looks like in the advert, 20 000 a year. By the time they've got holidays, insurance, pensions, you know all those kind of things...

A quick Internet search for guidance on the typical costs of employment for an employee returns a wide range of estimates. Issues around additional computing equipment and IT licences required, training provision and employment-related benefits can all influence the costs beyond a basic salary. Using one online calculator suggests that an employee earning £25 000 gross annual salary will cost the business over £42 000, subject to certain assumptions being made about benefits and, of course, not taking into account the additional income that employee can *generate* for the business which should at least cover these employment costs.

The considerations of hiring a new employee extend beyond these types of financial resource implications. For example, the founder director also revealed the precarious nature of resourcing particular projects or contracts as well as some sense of a moral dimension in the decision to employ a member of staff. He felt that businesses owe it to their employees not to engage in 'hire and fire' practices as business demand fluctuates:

... it's a big risk to take, you know, one's always in the stage of 'can you deliver?' or do you want to be in a position where you can deliver it before you pitch for [work]? So that dilemma is always facing us. As we've recruited, we are becoming more inclined to...go towards contracts once we've got a base amount of people because, I don't mean this ruthlessly, you take on a big burden when you employ someone full time.

And also I think there's a moral dimension as well, that it's a fluid business. You could take someone on and then in a few months' time you could be saying 'goodbye' to them because there isn't enough work. Well at least we're being straight and up front with people, you know 'we'll give you a contract and it's a rolling contract' and that seems to be an emerging position at the moment

While this business may have overcome the challenge of staff recruitment, how can an owner-manager keep the business operating or growing as they incorporate new employees and new ways of working? Taking time away from hands-on activities that earn money for the business today in order to ensure new staff know how to develop the business and generate income into the future may be especially challenging for owners who are closely involved with earning money for the business (see Cardon and Stevens 2004). While, during a start-up phase, this kind of direct owner-manager involvement in all aspects of the business may be necessary to ensure quality and control costs, such intensive involvement in all aspects of the business cannot be sustained as the enterprise grows. This will require degrees of delegation.

Delegation

As a start-up transitions into the day-to-day running of a business, entrepreneurs can find the accompanying change in their roles and responsibilities challenging – moving from the excitement of building a new venture towards something requiring more traditional management and monitoring. Perhaps one of the biggest challenges in this regard is that of delegation (Churchill and Lewis, 1983). Delegation involves handing certain tasks over to

another person so that they can undertake the work required. In this way, rapid growth and fast-changing management structures can create opportunities for career-advancement and skill acquisition not available in more rigidly hierarchical large firms. However, learning to delegate can pose difficulties for business owners who are accustomed to making decisions alone and implementing them as they see fit (Charan et al., 1980). Reluctance to release some control to others in the business or to accept that established projects and practices may be loss-making can create tensions. Employees might resent constraints and interference (Packham et al., 2005) while owners' strong adherence to pet projects or views can hold back the business and drain resources (Patzelt et al., 2008).

When we discussed this process with Jane, the owner of several successful enterprises, she revealed that her passion was in creating start-up ventures rather than what she saw as the more mundane aspects of managing and monitoring performance over time. Jane's response to this was to step away from daily involvement in her newest venture and hand it over to managers who oversaw related parts of the broader business. However, we also talked to some of Jane's employees and, for them, this change was difficult to accept:

... it is a bit disheartening because I have gone from a point where Jane says to me 'I am going to give you the business, you run it as you wish.' I have been doing that for a year and a half. And now [under the business manager] it is a case of being told: 'I need you sat where I can see you. I need you to take your lunch at this time. I need you to call me if you are going to be late. You sacrifice your break even if you are doing work.' It has gone from being an integral part of the start-up to being an employee. And I could be an employee elsewhere for a lot more money. And one thing that we often say actually is, and we wouldn't want to do it, but what we are doing right now we could be doing in my front living room, me and my colleague. We could essentially be setting up a business doing exactly what we are doing on two laptops in one of our front rooms. We are here because we want to work for Jane and we want to work with Jane.

Reaching the stage at which work is gladly handed over to an employee can take time for an

owner who has traditionally worked alone and may have started a venture for the apparent independence it offers. While there might be some intention to recruit staff who can be trained in the skills and approaches to work that the owner-manager prefers, research by Packham et al., (2005) suggests that this is easier said than done. Packham and his colleagues conducted group interviews with SME owner-managers in Wales about their perceptions of the development of management skills and practices within their firms. All the participants in their study felt that management development was intertwined with growth decisions but some reported problems delegating due to a lack of belief in the ability of existing staff to rise to the challenge.

Common to accounts of owner-managers in SMEs, there was a reluctance to introduce formal systems to support delegation and management because they were seen as bureaucratic and inappropriate for their business. Within this context, owner-managers might prefer the apparently simpler route of recruiting employees who can make a practical contribution straight-away. Such an approach is not quite as simple as it may appear and, in Packham et al's study, this approach was viewed as entailing difficulties in not only recruiting but also retaining those staff who already had the required management skills

In light of these challenges it might be understandable when some entrepreneurs conduct the management of their firm through a 'key employee' as they start up new ventures. Work by Schlosser (2014, 2015) in Canada details how entrepreneurs may rely on a particular employee who they perceive as effective, reliable and with whom they have enough shared history for them to be deemed trustworthy. In this way, trust, willingly making oneself vulnerable to another (Rousseau et al., 1998), can be an important element in the decisions of owner-managers of relatively informal, unstructured businesses. These trusted and so-called key employees can reduce some of the uncertainties associated with entering a new business venture as well as free the business owner from the challenges of day-to-day staff management. Consequently, Schlosser (2015) indicates, key employees might accompany an entrepreneur through multiple start-up ventures, providing some sense of security for the business owner.

Skills

For an owner-manager whose venture is becoming an established business with employees, this places an emphasis on a different set of skills than those that might have proved useful in getting the venture off the ground (Coad et al., 2013). In addition to the psychological step of relinquishing some control over part of the business, as an employer the business owner will have to develop the skills of giving clear instructions and, perhaps, learning to accommodate ways of working different from their own. Similar to difficulties in delegating to staff they do not fully trust with their business operations, sometimes an owner-manager can grow frustrated by employees' apparent inability to anticipate what they want done.

Recounting a recently held team meeting with two new starters, the owner-manager of a recruitment firm told us about his exasperation at these staff not knowing about a particular 'Star Job' feature on the company website. When asked to clarify whether he had alerted the new starters to this feature, he responded simply that new staff 'don't show any initiative', perhaps implying that he had not shown them. On this and other occasions, the owner-manager struggled to come to terms with the relative lack of investment from employees who, rather than sharing his love of the business, worked for their pay cheques. This difference of view is perhaps understandable given that he was the sole owner of the business and his employees were focused on their own careers and ambitions.

Managing as an employer also impacts how the entrepreneur conducts themselves in the business on a day-to-day basis. While self-employed, a business owner is largely accountable only to their external clients but, with employees, an owner-manager can also find themselves 'on-show' even when not in front of clients. For example, as we discuss in Chapter Six, important in many areas of the employment relationship are perceptions of procedural justice – that employees are treated fairly and without favouritism or prejudice. This new element of scrutiny can place demands on the owner-manager's conduct, especially when it is seen to vary from what is required of employees or the image projected externally to clients.

Within the context of an owner-manager introducing new timesheets and a renewed focus on people's time-keeping at a growth-oriented small firm that we worked with, one employee

reported his frustration at seeing the owner and his girlfriend arrive well after the start of the usual working day with no acknowledgement or offer of an explanation. The owner-manager was working by far the longest hours in the business and he was trying to regain some degree of work-life balance by making staff more accountable for their output. However, by not clearly communicating his justifications for reducing his own hours while requiring timesheets from employees, the owner-manager was open to charges of hypocrisy. The types of skill involved in managing these types of issue are a long way from the external focus of business start-up and may not be what a new owner-manager expects or is prepared for.

In general terms, owner-managers can be confronted by a lack of know-how concerning aspects of managing employees (Churchill and Lewis, 1983). As Cardon and Stevens (2004) point out, certain aspects of managing staff may arise somewhat infrequently. Owner-managers may, for example, be ill-practised in how to motivate employees in a given situation, identify particular training needs or, perhaps, how to discipline or dismiss someone. Such knowledge and skills can, of course, be acquired as necessary but, as Beckman and Burton (2008) report, those businesses founded by people with a narrow experience base of a particular function can sometimes struggle to appreciate the value of other functions. There has to be caution in assuming that an owner-manager will somehow intuitively know when to take appropriate advice about managing employment relationships in their business.

Task:

Imagine you are running a business and have recently taken on your first employees.

(a) How would you acquire the best ways of managing your employees? Try to be as specific as possible on the kinds of sources you might draw on (hint: don't forget popular representations of entrepreneurs and managers portrayed in the media as a source of information).

(b) Discuss each source with your colleagues and rate each in terms of how accessible the source is and how likely it is you think each source would provide useful information.

From Entrepreneur to Owner-Manager?

The challenges associated with moving from being a self-employed business owner to an owner-manager with employees have been characterised as a transition from entrepreneur to owner-manager. This perspective has, however, been criticised as ‘dangerous and misleading’ when it comes to understanding management in small businesses (Watson, 1995: 35). These criticisms suggest that the perspective over-simplifies how businesses develop in three main respects: assumptions of growth, the challenge of change and the underlying ‘from / to’ logic of this perspective. We consider each of these in turn.

Assumptions of growth

We started this chapter by identifying how governments are attracted to the idea of boosting employment in small firms given what this can achieve for reducing unemployment figures and, potentially, growth in gross domestic product (GDP). However, we must not assume that all self-employed people, or even all small firms, want to take on more employees (Scase and Goffee, 1982; Sloan and Chittenden, 2006). Caution is required, then, when faced with suggestions that the self-employed or the small firm are at the start of a pathway towards growth.

Taking on a first employee can represent a major step for many and it is a step that some would rather avoid. Some may view becoming an employer as hampering the independence they sought when becoming self-employed (Scase and Goffee, 1982). This is a thought we have found echoed in our own research:

...what you tend to find is that while you have this sort of passion and commitment and all that sort of stuff, staff generally don't... You know, now I don't really want all that hassle and aggravation that staff give you really.

Opting for self-employment or to run a small business may frequently be driven simply by a desire to earn a living rather than the first step on the path to building a larger business. For some, this represents a lifestyle choice and such ‘lifestyle businesses’ have been defined as

‘those providing an income for the household or family and not having a growth orientation’ (Fletcher, 2010: 454). While fulfilling important functions in the economy in terms of employment provision and providing income to owners and any employees, lifestyle businesses have tended to be overlooked relative to the attention granted to growth-oriented enterprises. However, labelling lifestyle businesses as ‘trundlers’ (Storey, 1994: 119) or ‘static’ (see Burns and Harrison, 1996: 41) risks misrepresenting the nature of these businesses and therefore limiting understanding of an important element of the economy (Bennett, 2014).

Moreover, growing a business can be achieved without additional employees, for example by increasing financial turnover from existing operations or using sub-contractors to increase capacity (Bischoff and Wood, 2013). This suggests that ‘growth’ is not a particularly helpful concept without qualification and that ‘non-growth’ might actually be ‘different growth’ in certain cases. Nevertheless, there remains a persistent view that most small businesses harbour ambitions to grow. This style of ‘acorns to oaks’ thinking (Weatherill and Cope, 1969) has been challenged in detail by Gray (1998) on the basis that it views small businesses as generally growth-oriented and destined to pass through specific stages of growth. In contrast, Gray highlights evidence suggesting that the motivations behind starting and running a business frequently do not include ambitions to grow or hire more employees. Moreover, among those businesses that do pursue or achieve growth, it is often with a view to achieving a particular end, such as to sell off the business as a going concern, rather than as an ongoing pursuit of growth for its own sake.

Gray’s analysis highlights an apparent tension between politicians’ objectives and those of small business owners. As MacDonald et al. (2007: 78) have commented:

Where SMEs are involved, perhaps the crucial link is between policy of any sort and cold reality. For instance, a simplistic view of SMEs is still common among policy makers who are capable of seeing SMEs simply as nascent large firms that should be exploiting innovation to realize their growth potential. SMEs, it would seem, have no business being small.

Yet, despite such refutations, assumptions accompanying acorns to oaks thinking still remains

commonplace today, a topic we will return to in Chapter Eight.

The challenge of change

A further criticism associated with the transitions businesses are assumed to undergo relates to the ease with which change may be implemented. Writing on the related theme of changing management styles, Charan et al.'s (1980) widely-cited paper 'From Entrepreneurial to Professional Management: A Set of Guidelines' presents a step by step approach to the transition.

Charan et al.'s starting point is that, to continue growing, small businesses must successfully navigate 'a transition from an entrepreneurial to a professionally managed system' (1980: 1). Within the ordered framework presented, the business owner first recognises a need to change their working practices before conducting analysis on how the business currently operates. In subsequent steps the business owner decides on a new formal structure which is implemented gradually, complemented by the training of suitable middle-managers. This process, according to Charan et al., culminates in a revised organisation structure that allows an owner to delegate decision-making, enable decisions to be made on the basis of data and to avoid over-reliance on particular individuals.

Although Charan et al. acknowledge the potential difficulties associated with aspects of these stages, there remains an underlying sense of a step-by-step map towards successful organisational change. The result is that the change process is over-simplified with limited consideration given to tricky issues such as whether the entrepreneur can recognise the need to change in the first place and accept that some response is required. Further, Jayawarna et al., (2013) identify that motivations may change over the course of time in a business, highlighting that the business environment is not necessarily constant – the kinds of approach and solutions that worked at one point might become unsuited to the enterprise in terms of environment, goals or the consequences of previous decisions.

Adapting the work of Miller (1992), we can start to understand how difficult it can be for an

entrepreneur to recognise that change in their approach may be required. Miller has described the 'Icarus Paradox' to help explain why successful organisations might not see a need to change what they're doing. The Icarus story from Greek mythology is well known: Icarus and his father Daedalus were being held prisoner on an island so Daedalus created some wings to help them fly away to freedom. The wings were made of wax and feathers so, before they made their bid for escape, Daedalus warned his son not to fly too close to the sea or the sun. The plan was a success, with Icarus using these wings to soar away from the prison, until, carried away with his new-found ability, he wanted to go further and higher and he continued to climb, taking him toward the sun. Closer to the sun's warmth, the wax holding Icarus' wings started to melt. Melted wax wings don't work very well and, while Icarus could defy his erstwhile captor King Minos, the same couldn't be said for gravity. Icarus fell from the sky to a watery fate.

The point of this story, as Miller sees it, is that organisations can bring about their eventual downfall by continuing to do the things that have made them successful to-date. Miller breaks down the Icarus paradox into two main issues: (i) success can lead to failure; and (ii) actions that lead to success at one time do not *always* lead to success.

The first point is quite simply to highlight the risk posed by hubris, brought on by success. In Miller's own words 'Icarus flew so well that he got cocky and overambitious' (1992: 31). The same can be said of some businesses where early success can lead them to underestimate the challenges of a competitive environment or new product launch. The second point is described as being 'too much of a good thing' (1992: 31) and is explained as organisations extending practices that they believe have made them successful to the point of dysfunction. For example, a business that attributes a large degree of its success to careful planning may come to be overly rigid by seeking to plan every last detail. In the case of a small business, it could be that the business enjoys early success through a profitable contract with a single supplier but, over time, the business tailors its operations increasingly to meeting the wishes of that client such that it loses the ability to diversify its client base and grow. Dependent on a single client, a small business may find itself subject to the demands and decisions of that client (Rainnie, 1989).

At the heart of Miller's analysis is the idea that organisations exist in dynamic environments and must, therefore, remain dynamic to account for changes in that environment. Simply repeating the practices associated with prior success may reflect that a business is not seeking to adapt to environmental changes. In the case of the entrepreneur who takes on employees, they might remain wedded to their original vision for the business (Beckman and Burton, 2008) and preferred ways of working, while failing to spot when the skills required to start a business should be altered in favour of the skills to manage it on an ongoing basis (Breslin, 2010).

Phelps et al. (2007) suggest that businesses will change their management structures when the problems caused by existing practices are thought to outweigh the risks of adopting new practices. As we will discuss in greater detail in Chapter Eight, however, identifying these 'tipping points' while in the midst of day-to-day business operations can represent a significant challenge for busy owner-managers (Mallett and Wapshott, 2014) and many may find themselves too close to the heat of the sun, failing to adapt to their changing circumstances.

The underlying 'from / to' logic of this perspective

Watson (1995), whose paper 'Entrepreneurship and professional management: a fatal distinction' prompted us to include this section of the chapter, presents an interesting and detailed consideration of how businesses change as they grow and criticises the underlying logic of a transition 'from' one state 'to' another. He argues that such an approach to understanding how businesses develop risks distracting attention from the ways that all businesses need to consider an appropriate balance of creativity and innovation with operational control. Watson's point is that, by adopting the 'from / to' logic of the transition perspective, we may come to misunderstand how both small and large businesses operate.

Criticising the 'naïve evolutionism' (1995: 35) of perspectives that imply one stage of development is left behind as a new business form replaces the old, Watson suggests that there can be significant overlap in the management orientations found in both small and large

businesses. Each may require, albeit to differing degrees, entrepreneurial and more traditional management behaviours if they are to be successful in coping with the challenges presented by their competitive environments. Importantly, the establishment and ongoing management of a small firm does not remove the need for entrepreneurial creativity and innovation but nor can the increasing pressures of employment relationships and management tasks within the firm be ignored.

While we cannot assume that all owner-managers will want to grow their businesses and that the processes of change may be simple or linear, there remains a different set of challenges and potentially different skills required when deciding to take on employees. For example this may relate to recruitment and selection, training and development, reward and recognition or to staff exit – the core topics covered in this book. The ‘from entrepreneur to owner-manager’ transition might better be understood as a series of questions and decisions that the owner(s) must address as their business, and its relationship to the wider operating environment, changes. How (and if) these questions and decisions are addressed will shape the business and the employment relationships within it (Levie and Lichtenstein, 2010).

Conclusion

In this chapter we have highlighted how entrepreneurship is not solely concerned with business start-up. If a business wants to grow, or indeed does grow, this often entails getting to grips with managing employees and a range of new demands such as generating sufficient resources to pay employees and learning to delegate in order to make the most of the people employed.

The challenges associated with a shift from being a self-employed business owner to an owner-manager with employees have been characterised as a transition from entrepreneur to owner-manager. This perspective has, however, been criticised as misleading and even as dangerous when it comes to understanding management in small businesses because it risks over-simplifying the ways in which businesses develop. This over-simplification can be considered in respect to assumptions of growth, the challenge of change and the underlying ‘from / to’ logic of this perspective.

The key point to take from this chapter is that managing a small business can present different challenges or require different emphases compared with the start-up of a new venture. To overcome these challenges, entrepreneurs may require new skills and knowledge, some brand new, others a change in style depending on the starting point of their business and considerations such as the operating environment, knowledge that relates to the topics covered in this book. In the next Chapter we start to consider in greater detail the factors facing SMEs that can shape or influence the employment relationships and practices we associate with these enterprises.